Floor Statement by Senator Kent Conrad (D-ND)
on Tax Reconciliation Bill
February 1, 2006

I thank my colleague for his courtesy. I also laud his very good work and the chairman's good work in putting this package together. I know we enjoy these debates. I certainly enjoy them because we have found a way to disagree without being disagreeable.

I also say to my colleagues that I believe deeply that the additional tax cuts ought to be paid for. At the appropriate time, I will offer a way of paying for them. I think the package that the chairman and the ranking member put together is a responsible package. There are things that need to be done for the American people and the American economy. The one difference I have is I would really like to see it paid for. I think there is a way to do that.

In addition, I will be offering, at the appropriate time, a pay-go amendment to go back to the budget disciplines we have used in the past that say: If you are going to have more tax cuts, pay for them. If you are going to have new mandatory spending, pay for it. I very strongly believe we have to restore those budget disciplines. It is also the view of the departing chairman of the central bank in this country, Chairman Greenspan. I think it is the view of most people who are seriously interested in restoring fiscal discipline to this country that we have to restore the pay-go rules that functioned very well for the country in the 1990s.

The reason I am so concerned is I look at our budget situation today, and here is what I see. We have just had, in these last four years, four of the biggest budget deficits in the history of the country. In fact, we have, in the case of these four budgets, the four biggest deficits we have ever had in dollar terms. That is coming off the last year of the Clinton administration when we had a surplus. Of course, the year before in the Clinton administration we had an even larger surplus.

Last year, the deficit was $318 billion. This year, they are forecasting $337 billion, but they are leaving out certain things. If you put back the things that they have left out, we can now anticipate a deficit of about $360 billion this year.

That is just the beginning of the story. The situation we face with the debt is really far more serious. The deficit, as we project it this year, of $364 billion -- it is a little more than that, but look at how big the debt is going to grow. The debt is going to grow not by $364 billion but by over $637 billion. I don't see the media cover the growth of the debt. All they want to talk about is the deficit because that is the story they are used to writing. The problem is that things have changed.

Well, what has changed? The biggest thing is that Social Security surpluses are growing, and growing dramatically year after year. And the idea was to prepare for the retirement of the baby boom generation. The problem is, this Congress and this administration are taking the money. They are taking every penny of the Social Security surplus -- it is not really a surplus at all because we are going to need every dime when the baby boomers retire. But instead of using that money that is in surplus this year, this Congress and this administration are taking every dime to pay other bills.

When you look at every other trust fund, they are raiding every trust fund in sight. The result is, instead of $360 billion being added to the debt, the real increase in the debt would be over $600 billion -- not just this year, but every single year of this five-year budget deal, at the very time the President is telling us: Don't worry, we are going to cut the deficit in half over the next five years.

The problem is, the deficit does improve over the next five years, but growth of the debt keeps getting worse. Why the difference? Because Social Security surpluses are growing every year to prepare for the retirement of the baby boom generation. But we are not using the money to either prepay debt or pay down the debt or prefund the liability. Instead, we are taking, and the President is taking every dime to pay other bills.

Here is the pattern of expenditures and revenues of the Federal Government, going back to 1980. The red line is the expenditure line of the Federal Government. You can see that during the 1990s each and every year spending as a share of gross domestic product came down. Why do it as a percentage of gross domestic product? Every economist will tell you that is the fairest comparison to make. That takes out the effect of inflation. The same is done with the revenue line. You can see that during the 1990s revenue went up every year and the result of declining expenditures and rising revenue was to eliminate the deficit, and during the three or four golden years here, we eliminated deficit spending and reduced the growth of the debt. Then President Bush came into office and spending has gone up. In fairness to him, spending went up because of the increased spending for defense, the increased spending for homeland security, and rebuilding New York. Just those three items explain about 90 percent of the discretionary spending increase.

You can see that spending as a share of GDP is still substantially below where it was in all of the 1980s and much of the 1990s. So while it is true that we have had a substantial increase in spending, we are still well below where we were in all of the 1980s and a big chunk of the 1990s.

On the revenue side of the equation, President Bush came into office here and he said revenue was at a record high. He was right. Look what has happened -- the revenue side of the equation has collapsed. And while it is true we had an uptick last year and the year before, we are still way below the historical average for the 1980s and 1990s.

Going forward, you can see we have this big gap between projected spending and projected revenue. The result is a never-ending stream of deficits and burgeoning debt.

Some have said the tax cuts of the Bush era show that if you cut taxes, you get more revenue. No, it doesn't show that. In fact, revenue has just recovered last year over where it was -- just gotten back to where it was in 2000. We have not had increases in revenue. As a share of GDP, here is what happened to revenue. It collapsed. It is this combination of increased spending, dramatically reduced revenue -- and a big chunk of this is because of the tax cut. That combination has plunged us into record deficits and even more rapidly growing debt.

My colleagues, this is utterly unsustainable. My colleagues say when you cut taxes, you get more revenue. No, you don't. You would have gotten more revenue had you not cut taxes.

Look, here is the reality. Back in 2000, the revenue was just over $2 trillion. It took until 2005 for the revenue side of the equation to come back to where it was five years before. Again, as a share of GDP, we have never gotten back. We are nowhere close to where we were, and I don't advocate we should get back to where we were because revenue was at record levels. We are nowhere near close to the average of the eighties and nineties.

On individual income taxes, we are still below where we were in 2000, and by 10 percent. So the notion that if you cut taxes you get more revenue is a great theory, but it has not worked in reality.

The President says to us we are going to cut the deficit in half over the next five years. Number one, I don't believe that ought to be the goal because if you look at the President's plan, the deficits explode right beyond the five-year window. But in addition to that, the only way the President reaches his conclusion is he leaves out all kinds of items. He leaves out war costs, he leaves out the cost to fix the alternative minimum tax, and he leaves out the effect of his making the tax cuts permanent.

When we add all those items back in, including his defense buildup, here is what we see in terms of the deficits, according to the Congressional Budget Office, adjusted for the things that have been left out. Here is what we see, the long-term deficit outlook. In fact, it is an ocean of red ink that gets much worse past the year 2011.

This is the harsh reality of the Bush plan. It is a plan of burgeoning deficit, of massive debt, and at the worst possible time, right before the baby boomers retire.

The President of the United States is, in effect, hiding from the American people the full consequences of his proposals because he stops his budget after five years. But here is what happens right beyond the five-year window.

He has dramatically underfunded long-term war costs. Fifty billion dollars has been appropriated for war costs in 2006 so far. The CBO estimates of additional outlays for ongoing military operations are $378 billion.

The President says he is going to cut the deficit in half, but he accomplishes that by leaving out things we all know we are going to have to pay for. War cost is number one. The President dramatically understates what the war is going to cost.

Here is the big enchilada. The President said last night: Make the tax cuts permanent. This dotted line on this chart is the next five years. This is what it costs over the next five years to make the tax cuts permanent. We see it is very modest. Look what happens to the cost of making the tax cuts permanent right beyond the five-year budget window. The costs of the tax cuts absolutely explode. Total cost over 10 years to make the tax cuts permanent is over $2.2 trillion.

That is the President's plan. He has no plan to pay for it. He is not cutting spending to cover this difference. We are already at record deficits. The baby boomers are just going to begin to retire, and the President says: Dig the hole deeper; dig it deeper; let's have more debt. What kind of a plan is that for America's future, more debt?

It is not just the war cost the President has left out or understated, it is not just the full effects of making the tax cuts permanent, but the President has left out entirely the cost of fixing the alternative minimum tax.

The alternative minimum tax is the old millionaire's tax that is rapidly becoming a middle-class tax trap. If we don't act on the alternative minimum tax, it is going to affect 20 million people this year -- 20 million people. It takes $1 trillion over 10 years to fix the alternative minimum tax. The President doesn't have a dime in his budget to deal with this.

This is the problem we have. We have an air of unreality in this town about where we are headed. Here is what the President told us back in 2001: "...[M]y budget pays down a record amount of national debt. We will pay off $2 trillion of debt over the next decade. That will be the largest debt reduction of any country, ever. Future generations shouldn't be forced to pay back money that we have borrowed. We owe this kind of responsibility to our children and grandchildren."

That is what the President said when he embarked on this course: Paydown of the debt. Let's do a reality check and look at what has happened versus what the President said. See any paydown of debt going on here? Any paydown of debt? There is no paydown of debt.

Leading up to this, when the President came in, the debt was $5 trillion. The debt was below the bottom of this chart. The bottom of this chart is $7 trillion. The debt was below the bottom of this chart when the President started. He has increased the debt by $3 trillion. That is in five years. He said he was going to pay down the debt by $2 trillion. Instead, he has increased the debt by $3 trillion, and that is where we are today.

But look where we are headed under his plan. He is going to add another $3.5 trillion over the next five years. He has already added $3 trillion; now he is going to add another $3.5 trillion. We are going to have $12 trillion of debt by the time this President's plan is done.

What difference does it make? Ask yourself this question: Where are we getting the money? Where are we getting the money to float this boat? Increasingly, we are borrowing this money from abroad. When we have a debt auction, increasingly the ones who are buying our debt are foreigners.

It is very instructive. It took 42 Presidents 224 years to run up $1 trillion of external debt, debt of ours held by foreigners. This President has more than doubled that amount in five years. That is utterly unsustainable. Foreign holdings of U.S. debt have doubled under this President in just five years.

The result is we owe Japan almost $700 billion. We owe China $250 billion. We owe the United Kingdom over $220 billion. My favorite, the Caribbean banking centers, we now owe them over $115 billion. We owe Taiwan $71 billion. We owe OPEC almost $70 billion. We owe South Korea over $60 billion. We owe Germany, Canada, Hong Kong, and up and up it goes, debt on top of debt.

Now the Secretary of the Treasury writes us a letter on December 29. That is an interesting time to write us, the week between Christmas and New Year's when Congress is not here and nobody is paying attention. What does the Secretary of the Treasury say to us: “The administration now projects the statutory debt limit, currently $8,184 billion.”

Let me repeat that, the current debt of our country is $8,184 billion. You can translate that into trillions. It is $8.2 trillion.

He says, “[The debt limit] will be reached in mid-February of 2006. At that time, unless the debt limit is raised or the Treasury Department takes authorized extraordinary actions, we will be unable to continue to finance Government operations.”

That is a fancy way of saying we won't be able to pay our bills. The most powerful Nation in the world won't be able to pay its bills by the middle of February unless the debt is dramatically increased.

Here is what has happened to the debt under this President. Remember, he said he is going to have maximum paydown of the debt; he is going to pay the debt down by $2 trillion. That is not what happened. Instead of debt being reduced, debt has been dramatically increased.

By the way, in the previous five years, during the Clinton administration, this is how much the debt limit increased: Zero. We were actually paying down debt. In 2002, the debt had to be increased $450 billion; in 2003, under this administration, the debt had to be increased another $984 billion; in 2004, the debt had to be increased another $800 billion; and now they want to increase the debt another $781 billion. You add it up. This President, in just these four years, has added $3 trillion to the debt. The debt was only $5 trillion when he took over. He has increased the debt in just these five years by 60 percent, and we now know that in the next five years, he is going to increase the debt another $3 trillion. He will more than have doubled the debt of our country during his administration.

One President -- 1 out of 43 -- has run up more debt than the other 42 combined -- more national debt, more debt held by foreigners.

Is this supposedly an indication of strength? What would people say out there? Is this an indication that our country is strong, that we are borrowing more and more money all around the world, or is it a sign of weakness?

I know what I think. I think it is a sign of vulnerability.

Last night, the President said we are addicted to foreign oil. He is right. You know what else? We are addicted to foreign money, and this President says: It is the people's money, give it back to them. The problem is, he is borrowing the money from China, Japan, and all around the rest of the world to give it back to them. That is what is going on here.

It is the people's money, yes; absolutely, it is the people's money. Do you know what else? It is the people's debt. Every dime of this has our taxpayers' name on it, and they are going to have to pay it, and this President doesn't seem to be the least bit concerned about this explosion of debt on his watch.

Now we have this budget proposal before us, and there are three chapters to it. There are three chapters to this book. Chapter 1 is to cut spending $39 billion. That is what they call the deficit reduction package.

Look what the second chapter says. The second chapter says: Oh, when you have cut the spending $39 billion, cut the revenue by $70 billion.

I was educated in schools in Bismarck, ND. I went to Roosevelt grade school. I had wonderful teachers -- Ms. Senzick, Ms. Barbie, Ms. Hook. They taught me math and they were very good teachers, and I was good in math. I could go back to the second grade and figure this out. Is the deficit getting smaller or larger as a result of this plan? If you cut your spending $39 billion but you cut your revenue $70 billion, have you made the deficit bigger or smaller?

Everybody knows you have made the deficit bigger. Yet our friends on the other side of the aisle say they have a deficit reduction package. No, they don't. They have a deficit increase package when we already have record deficits, record additions to the debt. And they say they have a deficit reduction package? Come on. There is no deficit reduction going on here.

The third chapter of the book is the one they really don't want you to read. The third chapter of the book is they are going to increase the debt $781 billion.

Here it is another way: $39 billion of spending cuts over five years -- virtually nothing as a share of the spending which will occur over that period -- and $70 billion of tax cuts not paid for. The result is they have just added to the deficit, added to the debt, and they will tell you this is really working because we are getting strong economic growth.

Are we really? Are we really getting strong economic growth? Let me say this: In the last 4 years, median family income in this country has gone down each and every one of the years. That is a fact. Median family income has gone down each and every one of the last 4 years. We only have the records through 2004, but 2005 I predict will show the same thing -- another reduction in the median family income in this country.

When we compare this recovery to the previous recoveries since World War II, here is what we see. This is the average of the nine previous business cycles; that is, if you look at the nine recoveries we have had from recessions since World War II, here is what we see. This red line is the average in terms of economic growth. This black line is the growth we have seen in this recovery. It is well below the average. It is 25 percent lower than the average economic growth we have seen in the previous recoveries.

These are facts. Something is wrong. This strategy is not working. It is no wonder the American people are concerned about the economy, even though people tell us the economy is great.   What we see is, in a recovery, this is one of the weakest of any we have had since World War II.

Let's look at another measure: business investment. This red line is what has happened in each of the nine recoveries. This is the average of each of the nine recoveries since World War II. But here is what has happened in this recovery. Yes, things have gotten better, but they are way below -- in fact, 50 percent less than the average of every other recovery since World War II. These are signs something is wrong. Something is not working with this strategy.

It does not stop there. Here is the job loss comparison. This red line shows the average of every recovery since World War II, nine of them. We have had nine major recessions and nine recoveries. This red line shows what has happened on average with job growth during a recovery.

Here is the line with respect to this recovery. We are 6.9 million private sector jobs short of a typical recovery. Is anybody paying any attention? Is anybody doing anything other than making rhetorical speeches and running around the country chanting "economic growth, economic growth, this is really working"? Something is not working. The average recovery since World War II has been stronger than this one in job production, in economic growth, and in business investment.

These are facts. The Federal Reserve Chairman, Mr. Greenspan, who just left office, said he opposes deficit-financed tax cuts. He said, "...[W]e should not be cutting taxes by borrowing."

The Chairman of the Federal Reserve was exactly right. We should not be cutting taxes by borrowing, especially borrowing from China and Japan and the Caribbean banking centers.

The Chairman said this about pay-go, which is the amendment I will be offering when it is appropriate to do so. Pay-go is a budget discipline. Pay-go says simply this: If you are going to have more tax cuts, yes, you can have them, but you have to pay for them. Yes, you can increase mandatory spending, but if you do, you have to pay for it. If you want new spending, you have to pay for it. If you want more tax cuts, you have to pay for them.

The Chairman of the Federal Reserve, who just retired, Chairman Greenspan says, "All I'm saying is that my general view is I like to see the tax burden as low as possible."

So do I.

"And in that context, I would like to see tax cuts continue."

So would I.

"But as I indicated earlier that has got to be, in my judgment, in the context of a

PAYGO resolution."

That is what I am going to be offering to my colleagues, the exact pay-go resolution the Chairman is referring to, the pay-go we had in the 1990s, which helped us impose discipline, which helped us restore fiscal responsibility, which helped us turn record deficits into record surpluses, which got us on a sound financial course, which, unfortunately, under this President and this administration and this Congress, we have veered from so dramatically back into the deficit ditch -- record deficits, record increase in debt. We are headed for $12 trillion of debt, more than a doubling of our debt on this President's watch and already more than a doubling of U.S. debt held by foreigners.

Think of it. It took 42 Presidents 224 years to run up $1 trillion of external debt for this country. This President has more than doubled it in five years. What is conservative about that? This is the biggest liberal, when it comes to debt, we have ever had in the White House in this Nation's history. He is very free with debt.

The pay-go I am offering simply says that all mandatory spending and all tax cuts that increase deficits must be paid for or require a supermajority vote, 60 votes. The current pay-go rule, and you will hear from the other side that we have pay-go -- we have it; it is a joke. It exempts all tax cuts and exempts all mandatory spending increases that are assumed in any resolution, no matter how much they increase deficits. And they say they have pay-go? Come on. They don't have pay-go; what they have is debt-go. Let's get going on the debt, that is what these guys have. And they are doing it and, boy, is our country going to pay a terrible bill for what these guys are doing.

This administration and this Congress are not going to be treated well by history because at the critical moment, just before the baby boomers retire, instead of what other countries are doing, which is to run surpluses to get ready for the retirement of the baby boomers, this country, under this administration, this Congress, is running massive debt, doubling the debt of our country during this President's watch.

I will offer the pay-go resolution at the appropriate time. I will offer a second amendment which will say: Yes, we can have these tax cuts which the chairman and ranking member have brought before us, which is a responsible package. But it ought to be paid for.

Let me put up the tax cut package I will offer my colleagues, the very same one the chairman and ranking member have come up with: small business expensing, a savers credit, tuition deduction -- all of these until 2009, the same as their package; new market tax credit until 2008, same as theirs; sales tax deduction until 2007; the R&D credit until 2007, exactly what they have; work opportunity welfare-to-work credits, the same as they have; teacher classroom expenses until 2007, the same as they have; leasehold and restaurant improvements until 2007; other traditional extenders until 2007, exactly as they have; the AMT hold harmless, through this year.

The difference is I am paying for it over the next 10 years, paying for it all. How am I doing it? In this way: I am providing the same offsets as the Grassley-Baucus substitute. In other words, they have a package of offsets here closing the tax gap by shutting down abusive tax shelters and other reforms. They have $34 billion. That includes ending the tax benefit for leasing foreign subway and sewer systems -- saving $5 billion.

This is the scam of all time. This is the scam of all time. We have people who are buying subway systems and sewer systems in foreign countries and depreciating them for the purpose of their U.S. taxes and then leasing back the sewer systems and the subway systems to foreign countries in foreign cities. Is anybody listening? You tell me we should not stop this scam? This is unbelievable. When my staff first brought this to my attention, I could not believe it myself. You have to be kidding me. Companies in America are buying the sewer systems in foreign countries and depreciating them for the purposes of their U.S. taxes. Can you believe this is going on? Companies are buying the sewer systems in a foreign country and depreciating them for the purposes of their U.S. taxes? It is true. We could stop that and save $5 billion.

I take that package, then I add ending a loophole for oil companies that lets them avoid taxes on foreign operations. That is another $9 billion.

We could require tax withholding on Government payments to contractors such as Halliburton just as we do to mainstream businesses in this country. You know, if you are a business in this country, you have to pay withholding taxes. But we have Halliburton over there with all these funny-money contracts in Iraq -- they don't have that requirement. Why not? That would save $7 billion.

If we renew the Superfund tax so the polluting companies pay for cleaning up toxic waste sites, we would save $17 billion. And then we close other tax loopholes for another $22 billion.

This is a picture of Ugland House in the Cayman Islands, the building from which they run all of these scams. I used to be a tax administrator. One of my jobs used to be to scout out these scams. That is one of the reasons I am here, because people I represent thought I did a pretty good job of unearthing these scams and shutting them down. But this one takes the prize. I credit my colleague, Senator Dorgan, for finding it.

Has anybody been to the Cayman Islands? The Cayman Islands are just south of Cuba. You go to the Cayman Islands, and you find this building. It is five stories tall, and 12,748 companies call this building home. This is one of the scams of the ages. Let me repeat this. You have this building right here -- this is a picture of it -- down in the Cayman Islands. It is five stories tall. It is home to 12,748 companies. Do you see them all? They are working there. Are they working there? Are 12,700 companies working there? No, they are not. They are running fraudulent operations there. They are shuffling paper there.

When I was tax commissioner, I found a major company that showed all of its profits down in the Cayman Islands. Gee, how would that be? They are doing work all over the country in the United States, buying and selling, buying and selling. They showed those were all break-even operations.

Then they ran a little operation with one person down in the Cayman Islands. They showed a $1 billion profit.

This shouldn't be a partisan issue. This is a scam. It is a scam on all of us to have 12,000 companies.

I was just describing the company. They had one employee down in the Cayman Islands. They showed all of their profits down there with one employee. I said that is the most efficient man in the world. This one man -- all the profits of the company are in his division, and he is the only one in the division.

Why do they do it in the Cayman Islands? Because there are no taxes in the Cayman Islands. They weren't doing any work down there. They are just shoveling profits between subsidiaries.

That is what is going on in this building. This building is home to 12,748 companies that are doing business down in the Cayman Islands. They are shoveling tens of billions of dollars in profit out of this building. This building, I am sure, is a smart building. It must have the latest wiring. They must have the latest technology to be producing tens of billions in profits in this one building -- the profits of 12,000 companies. What a scam. We ought to stop it.

My bill says: Yes, we should have this tax relief for the American people. We ought to pay for it by closing that kind of scam. We ought to stop the scam where companies are buying foreign sewer systems and depreciating them on the books in the United States for the purposes of lowering their taxes here. It is nothing but a ripoff and a scam, and we ought to stop it. We ought to pay for the tax cut, every dime of it. That is what my proposal does.

I thank the Chair and yield the floor.